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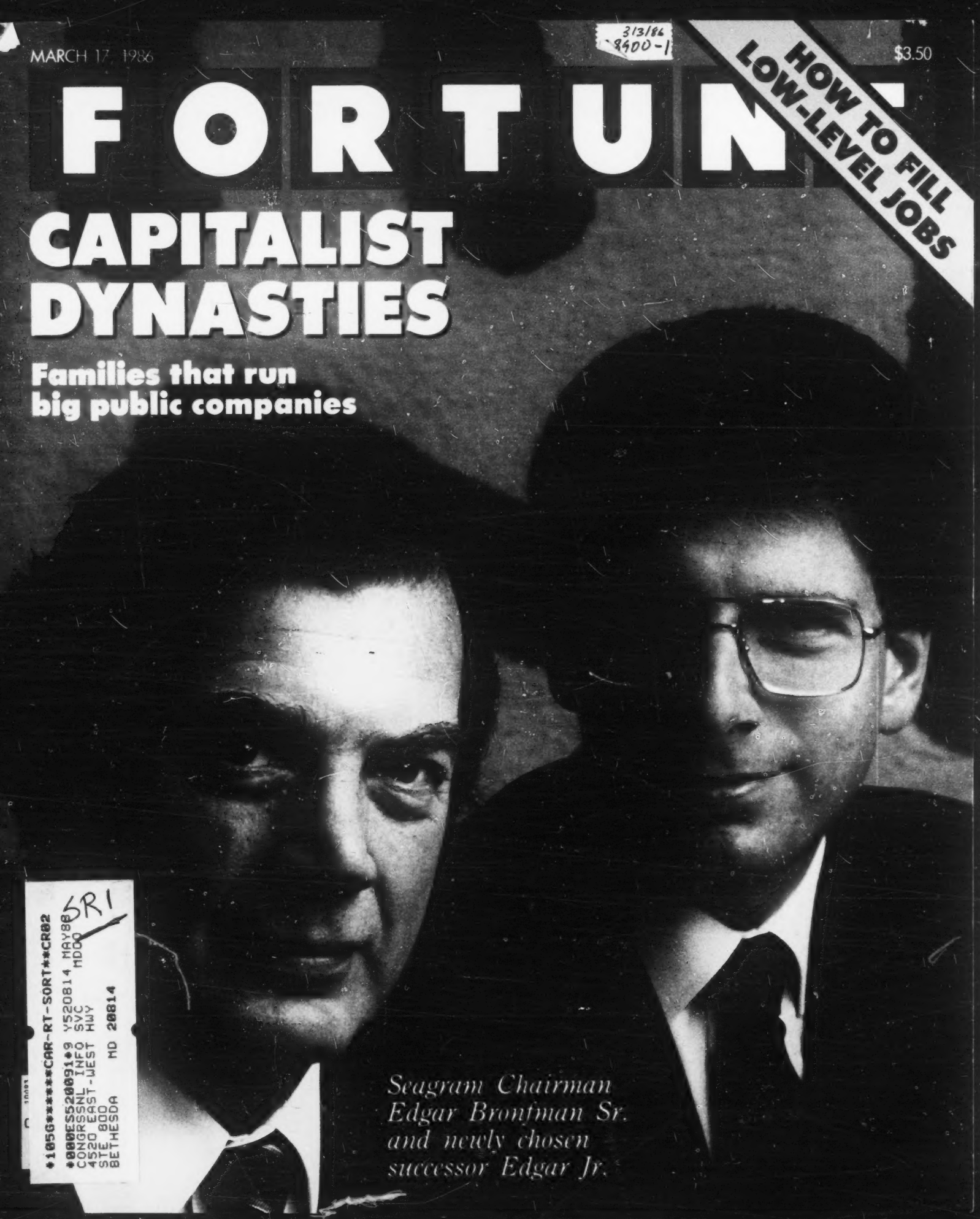
HOW TO FILL LOW-LEVEL JOBS

CAPITALIST DYNASTIES

Families that run big public companies



Seagram Chairman Edgar Bronfman Sr. and newly chosen successor Edgar Jr.

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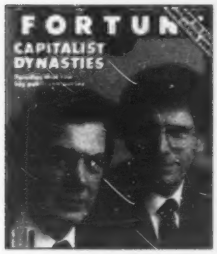

For the cover, Duane Michals photographed the present and future chiefs of one of the biggest business dynasties. See pages 22 and 28.

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BUSINESS DYNASTIES FACE THE RAIDERS

Time was when families that control big public companies and pass the top job along like an heirloom seemed takeover-proof. No longer. The threat of raiders is forcing some to spruce up their returns. That can mean putting an outsider in charge. ■ *by Colin Leinster*

The first Quick *at discount broker Quick & Reilly was Leslie C. Jr. Then came son Leslie III, 33, a vice president, Thomas, 31, in charge of branches . . .*

GEORGE III, John IV, August III and IV ... The names smack of European royalty or perhaps occupants of the Vatican. But these are members of a New World nobility: the patriarchs and scions of families that have managed big publicly held U.S. companies through successive generations.

The aristocracy may be threatened soon. Family-run companies, especially the biggest and oldest, could well be the corporate raiders' next quarries, according to several sources in the financial community. An executive with a major New York investment bank says, "I've got several on my hit list." A Chicago money manager adds, "A lot of old-line family businesses may think nothing could happen to them, but these days they could be vulnerable."

Families dominate many of the hugest publicly held U.S. enterprises. For example:

▶ A second generation of McDonnells runs McDonnell Douglas, the aerospace giant that was No. 34 on the FORTUNE 500 last year with 1984 sales of $9.7 billion. A member of the third generation is on the way up.

RESEARCH ASSOCIATE *John Paul Newport Jr.*

▶ Members of the Busch family have headed Anheuser-Busch, the brewing behemoth (No. 53; sales: $6.5 billion), for four generations. August Busch IV, a member of the fifth generation, recently started at the company.

▶ At Weyerhaeuser, the timber company (No. 66; sales: $5.5 billion), nine direct descendants of the founding families have taken turns at the helm. The current C.E.O., George Weyerhaeuser Jr., represents the fourth generation of his family to run the company, and nephew John IV heads a distribution operation.

Family-run corporations do not consistently perform better than competitors, or worse (see box). But would-be acquirers think the market undervalues many because the companies have long seemed takeover-proof. If family members own a sizable chunk of the stock or have peopled the board of directors with friends and relatives, what chance does a raider have? The raiders' latest thinking: a lot more chance than most people suppose.

Procter & Gamble's takeover of Richardson-Vicks last October sparked the new thinking. The Richardson family, which had managed the company for four generations and with insiders held 32% of the shares, was united against selling. But many of those shares were held in family trusts established by previous generations to provide income for descendants. The trustees who managed the trusts had a fiduciary duty under law to vote in favor of enriching the beneficiaries. So when P&G offered $69 a share less than a month after Richardson-Vicks stock had been trading at around $37, the trustees felt they had to take the offer. Though the family received more than $400 million, the Richardson dynasty fell.

Knowing which dynastic companies are susceptible to raiding through trusts is not easy; companies need not reveal their owners' trust arrangements. But acquirers have other methods, such as exploiting family squabbles. Even without prodding, internal fights fractured the Bingham family's privately held Louisville newspaper and broadcasting empire, which was put up for sale in January. One well-known raider, who asked not to be named, says that a 20% family stake without extensive trusts would normally constitute an effective defense. But, he adds with a chuckle, "if two cousins hate each other, that makes my job a lot easier."

Money manager William J. Reik Jr., a managing director of Paine Webber's Mitchell Hutchins Asset Management subsidiary, has done splendidly for himself and his clients by investing in family businesses that were later taken over. For example, he invested in the New Yorker Magazine Inc., the Fleischmann family's domain, which Advance Publications Inc. bought last year. Reik is such a fan of family-controlled, family-managed businesses that he has persuaded his son, William J. Reik III, to join his staff as a researcher and account manager.

Despite his success anticipating takeovers, Reik likes family companies mainly because he thinks they are good long-term investments. He says family-run companies are directed with a view to ensuring value over generations. James O'Toole, a University of Southern California business professor, agrees. He believes managing for the long term is a ubiquitous trait of family-run companies. He admiringly cites the Weyerhaeuser family's creed: "This not for us or for our children, but for our grandchildren." That attitude, O'Toole adds, influences how such families view those who buy their company's stock: "They care about investors, not speculators."

But other investment experts think concern for the long term can be an excuse for indulging whims and shortchanging the present. George Adler, a security analyst at Smith Barney, is acid on the subject of Weyerhaeuser: "The company has been run paternalistically and expensively, and the bottom line reflects that." The company's feeble return on shareholders' equity, he says, is not worse only because timber is on the books at the 1913 acquisition price. Adler argues that Chief Executive George Weyerhaeuser has not cared much about stock prices and also is sometimes disdainful of security analysts—notorious short-termers. In 1984 more than 100 analysts traveled to Seattle, where Weyerhaeuser is based, to meet with executives of local companies. George Weyerhaeuser failed to turn up. The company says he is worrying more about the near term these days. Weyerhaeuser's total return to investors—stock price appreciation plus dividends—over the past ten years was 1.2% a year, compared with an average of 13.4% in the forest products industry.

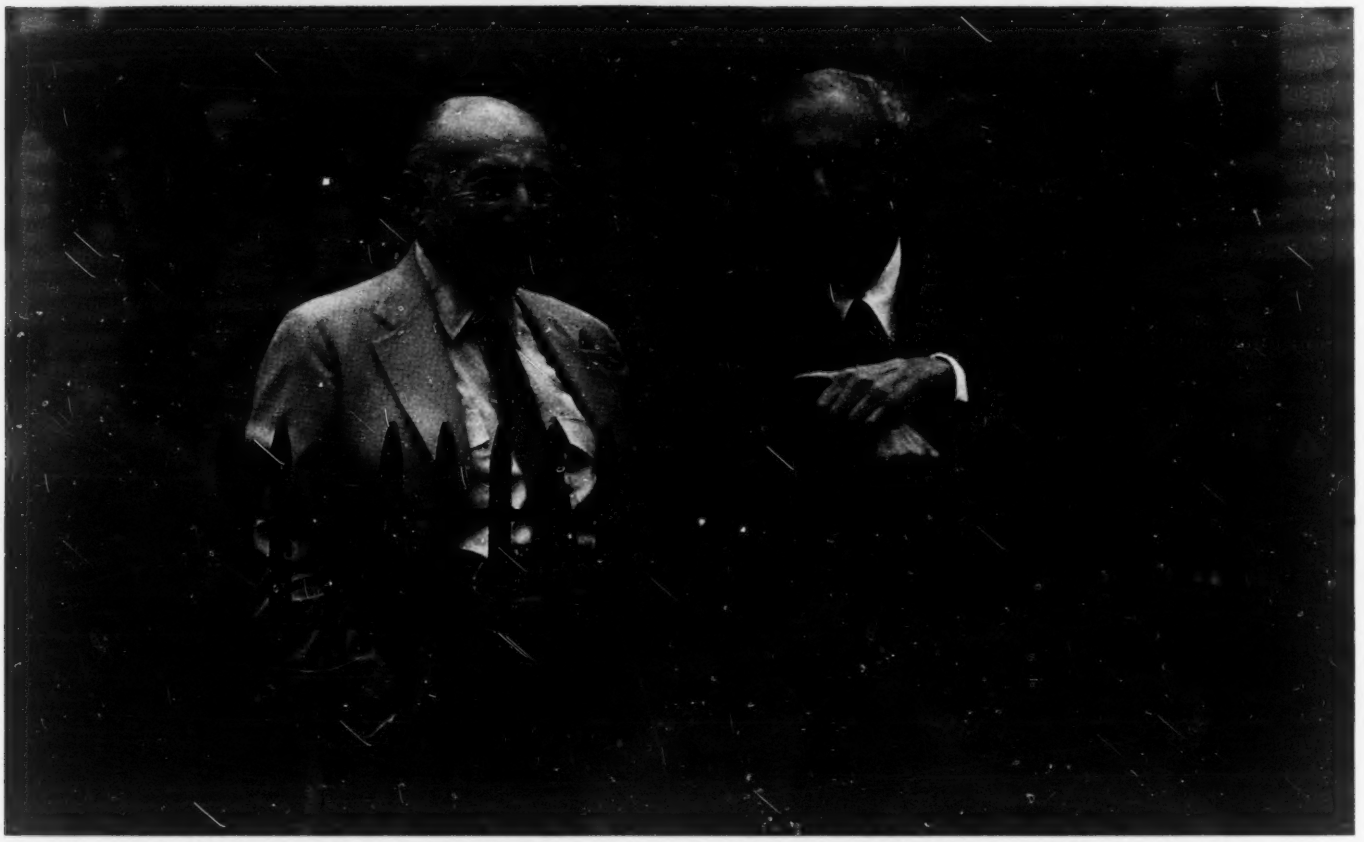
The growing takeover threat may well drag many dynasties' concerns nearer the present. Reason: the hardest but surest way

Peter, 30, who runs a clearing house operation . . .

Christopher, 28, a trading specialist . . .

and daughter Nancy, 24, a broker in Boston.

PHOTOGRAPHS BY DUANE MICHALS



The line ends *after four generations at Phillips-Van Heusen, a New York City shirt manufacturer. President Lawrence Phillips (right, with his father, Seymour, the chairman) says he "closed the option" for his son, David, 26, to join the business because "I thought he'd attain greater happiness working elsewhere." New York's Phillips-Beth Israel School of Nursing, which the family has long supported, is in the background.*

to keep control is through superior financial performance. Sanford McDonnell, 63, owns a mere 0.24% of McDonnell Douglas, the aerospace company that his uncle founded and which he now runs. Even with the holdings of other family members, a family foundation, and two charitable trusts thrown in, the McDonnells control less than 14% of the outstanding shares. But McDonnell looks secure because he has proved a particularly successful chief executive. In the face of wide skepticism in the Seventies and early Eighties, he stuck to his faith in the profitability of making commercial airliners and is looking smart for doing so.

AUGUST BUSCH III, chief executive of Anheuser-Busch, which his great-grandfather started running more than a century ago, owns with his relatives only 20% to 24% of the company. But as chief of the only U.S. brewer with nationwide distribution that is increasing market share, he is adored by shareholders. Says Emanuel Goldman, a beverage industry analyst at Montgomery Securities, "He is one of the best executives in the beer business, irrespective of his name."

McDonnell and Busch, like most of their counterparts in other dynasties, were prepared for the top job from an early age. Busch did not even finish college, instead devoting himself to becoming a brewmaster. But being the anointed one is not always easy, admits Gary Rollins, 41. His father, Wayne Rollins, 73, in 1948 co-founded Rollins Inc., which began as a Delaware radio station and grew into a $500-million-a-year empire with interests in broadcasting, oil field services, and pest control (including Orkin, the industry leader). "I feel the relationship with my father forced me to exert myself more so my fellow workers would recognize my effort and ability rather than my heritage," recalls Gary, president of Rollins. "I was determined not to fit the standard-issue image of the boss's son." He concedes that "my family relationship later probably enabled me to get some job assignments." Observes Gary's brother Randall, 54, president of Rollins Communications, which was spun off in 1984: "I think I had it harder and easier because I was the son of the founder and chairman. Harder because I think any father expects more from his son than from others and because some employees think many others should have been given the job. Easier because you know without a shadow of a doubt that your teacher, adviser, and boss has only your best interests at heart."

Some heirs were drawn rather than pushed into the business. For Stephen Myers, 42, chief executive of Myers Industries, an Akron company that equips tire shops and makes plastic containers (1984 sales: $86 million), education in company ways began early: as a young boy he accompanied his father, Louis Myers, chairman and co-founder, to the office on Saturdays. "Mostly that meant I got a doughnut for breakfast instead of cornflakes or eggs," he recalls. Though he worked at the company during school vacations, he says, "I never had any intention of going into the business world." Instead he thought about "teaching, photography,

"I feel blessed," *says Jacob Sapirstein, 101 (center, near his Miami Beach winter home), of his great-grandsons' ambition to join American Greetings, the company he started by peddling postcards from a horse-drawn wagon in 1906. Recent visitors included (from left) great-grandson Jeffrey, grandson-in-law and company President Morry Weiss, great-grandsons Gary and Zev, and son Irving Stone, the chairman.*

something." He even considered joining the FBI. To finance a career in photography, he joined the company "temporarily," he says. Ten years later, after a variety of increasingly responsible jobs, "I realized, gee, how time flies when you're having fun. I had become enchanted by it all."

J. Willard Marriott Jr., 53, whose late father founded the Marriott hotel chain (1985 sales: $4.2 billion), says he had a "100% free choice" about joining his father's business, of which he is now chairman. "My dad didn't push me at all. I didn't have much option, though, for other careers. I'm not athletic, so sports were out. I was never very good with my hands, so I couldn't be a surgeon. I took one of those aptitude tests in the seventh grade, and they said, 'You're not much good at anything, so why don't you go into business?' " He did, joining the family company full-time at age 24.

Modern heirs seem less likely to plunge directly into the family enterprise. Instead they may first get a few years' experience elsewhere, giving them a wider view of the world and perhaps lessening resentment by co-workers when they join their father's company. At American Greetings Corp., a $1-billion-a-year card and toy company, all of the youngest generation plan to join the business, but none has yet. Gary Weiss, 23, is an accountant at Ernst & Whinney in New York City, and his brother Jeffrey, 22, is a management trainee at Macy's department store there. (Zev, 19, is a college sophomore, and Elie, 13, is in grade school.) That's fine with their father, President Morry Weiss, 45, their grandfather, Chairman Irving Stone, 76, and their great-grandfather, founder Jacob Sapirstein, 101, who says he feels "blessed beyond my expectations."

BUT IF A FAMILY SCION, no matter how broadly experienced, is destined for the top job, can a dynastic company attract bright and ambitious outsiders? Edgar Bronfman Sr., chief executive of Seagram Co., thinks his company can by "treating our people very well"; he acknowledges that outsiders have no shot at the top (see following story). Others think that's nonsense. "It's not possible to attract the best outside people if they perceive that they'll be preempted by family members for top jobs," says Wallace Barnes, 59, whose great-grandfather founded Barnes Group (1985 sales: $432 million), which makes springs and aerospace components and distributes nuts and bolts. Barnes, who with his family has 35% of the stock, decided to eliminate the worry by hiring an outsider to succeed him one day as chief executive.

Laurence and Preston Robert Tisch, the brothers who run Loews Corp., share Barnes's worry. They recoil at the suggestion that they might be considered a dynasty. Yet the Tisch family owns 29% of the company, and Larry has two sons working for the company, Bob one. Even so, insists Bob: "Being a Tisch is not enough around here."

Professional managers are skeptical of such claims. Wallace Barnes found it "a bit of a shock" that management candidates, even after assurances they would be in line for the top job, "always inquired in great detail about

"I never had any intention *of going into the business world," says Stephen Myers (left), chief executive of Myers Industries, an Akron company that equips tire shops and makes plastic containers. But during school vacations he worked at the company, which his father, Louis (right), cofounded, then took a job "temporarily" to finance a planned career in photography. The elder Myers hopes his grandchildren will join the company.*

BEING THE BOSS'S SON IS NOT ENOUGH

■ Investors who bet on family-managed businesses get no guarantees. Over ten years, ten family-run giants show dramatically different total returns to investors—changes in the stock price plus dividends. The best performers buttress the argument that companies with a tradition of family control can shrug off immediate problems and manage for the long term. Wang Laboratories, for example, did badly last year but excelled over the decade. Despite their managers' presumed profound interest in the value of the stock, many of the biggest dynastic companies have long trailed their competitors. The laggards' performance may suggest that, by keeping management in the family for generations, a company is not getting the best management. Says a New York investment banker: "Sometimes you have to wonder whether the blood is getting thinner."

COMPANY	MARKET VALUE in billions 2/18/86	FAMILY Percentage of stock it controls	RETURN ON EQUITY 1985 Industry average (estimated)	TOTAL RETURN TO INVESTORS 1975-85 avg. Industry average
Anheuser-Busch	$6.0	Busch 20-24%	20.6% 8.8%	17.1% 17.0%
Loews	$5.5	Tisch 29%	15.0%[1] 10.0%	36.7% 18.8%
Motorola	$5.4	Galvin 7%	3.2% 7.4%	12.9% 17.9%
Seagram	$4.9	Bronfman 39%	9.0%[1,2] 16.5%[3]	21.1% 24.8%[3]
Weyerhaeuser	$4.5	Weyerhaeuser 10-12%	5.8% 9.5%	1.2% 13.4%
Marriott	$3.4	Marriott 21%	19.7% 14.0%	22.2% 18.2%
McDonnell Douglas	$3.2	McDonnell 14%	13.5% 18.6%	20.0% 26.4%
Corning Glass Works	$3.0	Houghton about 20%	11.2% 10.6%	14.1% 14.6%
Wang Laboratories	$2.8	Wang 38%	−5.0% 10.9%	44.5% 18.0%
Safeway Stores	$2.2	Magowan less than 1%	14.2% 16.5%	9.8% 21.2%

[1]Value Line estimate. [2]For fiscal year ended January 31, 1986. [3]Figure is for Brown-Forman, the only other publicly held distiller.

We're no dynasty, *say Preston Robert Tisch (foreground left) and his brother, Laurence (right), who turned a resort hotel into Loews Corp., a financial conglomerate. One of Bob's children, Jonathan (rear left), and two of Laurence's, Andrew and James, work for the company. But "being a Tisch is not enough around here," insists Bob. The brothers fear that even looking like a dynasty will scare away outside talent.*

my children and my cousin's children and their career plans." You can't blame them. Virgil Baldi, a partner in the executive recruiting firm Korn/Ferry International, says, "I've seen owners commit themselves to hiring outside management when they don't really mean it, and I've seen many executives chewed up."

Peter Davis, director of executive education at the University of Pennsylvania's Wharton School, thinks many family managers will have to consider leaving management and controlling the company through the board if their companies are to stay competitive. The family can choose the best managers, whoever they may be, and increase its chances of keeping control. Raymond Corp., a $113-million-a-year manufacturer of forklift trucks and other factory and warehouse distribution equipment, prepared for the switch in 1984. George Raymond Jr., 64, whose father bought the ironworks that evolved into Raymond Corp., says he talked to his two sons, George III, 39, and Stephen, 36, about the future of the company and his intention to bring in outside management. He bluntly explains: "I'm not sure whether either really has his heart set on succeeding me, or even if they have the capability. What happens to more than 1,000 employees is important to me. I'd love to see one or both stay"—each is a middle manager—"but not at the expense of the company." He hired William R. Webber, a 28-year veteran of General Electric, as chief operating officer with the promise he would be C.E.O. by 1987 "if he didn't stub his toe." Young dynasties, still full of hope and promise, have less reason to look outside. Leslie C. Quick Jr., who launched the Quick & Reilly Group Inc. discount brokerage in 1974 and took it public in 1983, has hired five of his seven children full-time and says, "The kids do a good job."

EVEN WITH standout performance, no dynasty is forever. If it avoids raiders and ruinous internal wars, it may just die out. Hasbro Inc., a toymaker, has been run by three generations of Hassenfeld brothers, but the current pair, Stephen, 44, and Alan, 37, are both unmarried. Or a dynasty may end when a patriarch decides it constricts lives. Lawrence Phillips, 58, president of the Phillips-Van Heusen shirt company (1984 sales: $591 million) and the founder's great-grandson, recalls ruefully, "I always knew I would work for the company. Early in my career I knew I was being overpaid and overpromoted and intensely watched by all the other executives. I had to be holier than the Pope and work harder and more conscientiously than anyone else." Phillips decided when his son David was born 26 years ago that he would have a different life: "I closed the option for him because I thought he could attain greater happiness by making his own way in life." Concurs Lawrence's father, Seymour, the company chairman: "A fifth generation is too long a family tree."

Newly bold raiders may change the characters of dynasties that carry on by forcing them to concentrate on the near term. While in some cases disrupting a tradition of generations, the change could be just what some family-run enterprises need. It's hard to see the harm in dynasties that control public companies acting as if their interests are the same as the other shareholders'. F